



September 9, 2005

Stephen J. Wright, Administrator & CEO  
Bonneville Power Administration  
P.O. Box 3621  
Portland, OR 97208

Dear Steve:

The Northwest Independent Power Producers Coalition (NIPPC) is pleased to reply to your letter of August 4, 2005 and provide attached comments to assist you in determining BPA's participation in a regional transmission organization for the North and Intermountain West.

There is no more urgent task for those who are dependent on transmission service than to address the myriad limitations, constraints and congestion that we currently face in seeking access to the grid. We believe that the consensus that has built up over more than two years around the model represented by Grid West provides the most viable structural and functional options. While the Transmission Improvements Group (TIG) proposal addresses some of the political considerations of establishing a regional transmission organization in the area served by BPA, it does not rise to the level of an alternative to Grid West. Consequently, we believe that the forthcoming September decision for BPA is not a choice between TIG and Grid West, but rather whether the agency supports the seating of an independent Developmental Board, one of whose immediate tasks will be to seek to integrate the viable elements of the TIG proposal into the final Grid West design.

BPA was instrumental in fostering the consensus represented by the Grid West model, and we believe that BPA should stay the course with the decision-making process that regional stakeholders throughout the Pacific and Intermountain West recognize for its value and integrity.

Sincerely,

Robert D. Kahn, Executive Director  
Northwest Independent Power Producers Coalition

Bonneville Power Administration  
Attn: Communications DM – 7  
Re: Grid West Decision Point 2

**Comments of the  
Northwest Independent Power Producers Coalition  
Grid West Decision Point 2**

The Northwest Independent Power Producers Coalition (NIPPC) represents the developers, owners and operators of power plants currently serving or planning to serve the Pacific Northwest. Our members operate 3250 MW of capacity with another 1700 MW permitted. This capacity is located within the Bonneville Power Administration's (BPA) control area and serves both public and investor-owned load-serving entities.

For the last two years, NIPPC has collaborated with other stakeholders, including BPA, to substantively address the serious transmission problems that have a profound effect upon electric service in the North and Intermountain West.<sup>1</sup> We believe that Grid West, which is supported by the broadest spectrum of interests -- transmission owning and transmission dependent utilities both public and private; renewable energy generators; state agencies; environmentalists; consumer advocates and tribes -- is the best structural option on which to build an effective regional transmission organization. We oppose the TIG proposal, as entirely inadequate to the task, for reasons further detailed below.

Grid West, and only Grid West, is capable of delivering the "one utility" transmission construct that the region requires. We would note that BPA was an active party to the consensus-building process that transformed the previous RTO-West proposal into the present, stakeholder-driven, regionally focused Grid West model. Participants in the process understood BPA to be committed to the Grid West decision-making process that was adopted February 2004 and which extends well beyond the imminent Decision Point 2. We believe that BPA should honor that commitment.

It is important to underscore the features that notably distinguish the Grid West design process, from that of any other previous and current regional effort:

First, Grid West is qualitatively different from IndeGO and RTO West because unlike its predecessors, Grid West has been crafted from the "bottom up," and is best described as an "Independent Transmission Provider (ITP)." The design of Grid West began with a catalog of the "problems and opportunities" facing the North and Intermountain West transmission grid. The consensus that was forged in late 2002 specifically aimed at avoiding conventional RTO structures and the so-called Standard Market Design (SMD).

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1 This unfamiliar formulation is intended to draw attention to the fact that the footprint of Grid West extends far beyond the familiar definition of the "Northwest" in that it includes British Columbia (and potentially Alberta) along with Montana, Utah, Wyoming, Idaho and Northern Nevada.

Second, the Grid West process was and remains truly collaborative. All effected interests are represented in a stakeholder congress – the Regional Representatives Group (RRG), which is the only legitimately constituted and formally organized stakeholder committee in the region. The RRG comprises staff from five state regulatory commissions, who not incidentally have exerted a most constructive influence on the design of Grid West throughout the deliberations. Noteworthy is the fact that Grid West has remained open to unconstrained participation by even its most determined opponents; those same opponents who, after having been unable to persuade the majority of the RRG that better alternatives exist to the scope and structure of Grid West, shifted their attentions to the Transmission Improvement Group (TIG).

Third, Grid West includes participants from the entire geographic area the ITP is intended to serve. In reaching north into British Columbia (and likely Alberta) east into Montana, Idaho, Wyoming and Utah and south into Northern Nevada, Grid West extends far beyond BPA's service territory. Grid West then is a product of a regional effort to benefit the entire North and Intermountain West. The geographic scope of Grid West is critical to its proposed ability to manage parallel flows and efficiently re-dispatch energy to solve congestion.

Finally, underpinning the entire Grid West effort is the integrity of its processes; a sustained commitment to open, fair and transparent deliberations. The process itself points to the achievability of what its participants seek to create: a regional transmission entity that inspires confidence and that can be trusted to diligently discharge the precise mandate it has been given.

BPA's participation in the process has been both constructive and instrumental. It is clear to all concerned (and explicitly stated in the developmental bylaws) that Grid West can only be launched with BPA participation. NIPPC members have long recognized the central role that BPA plays in the region and have supported BPA's continual engagement in the Grid West design and development process.

BPA has been vigilant throughout the process, consulting regularly with its manifold constituencies. The agency has stepped in at critical junctures calling for revisions or clarification of the existing consensus. The review by the National Academy of Public Administration and late hour revisions to the "Platform Proposal" governance structure are but two prominent examples. BPA's pursuit of FERC guidance (with the participation of Idaho Power and PacifiCorp), which resulted in the Commission's deference to the filers in virtually every respect, is the most recent example of BPA's due diligence.

By contrast, we regret BPA's encouragement and funding of the TIG, whose proposal cannot be said to have been developed through the open debate and negotiated differences that has characterized the RRG practice. By enabling TIG, BPA has conveyed its legitimacy even as its principal supporters' purpose has been to derail the hard-won Grid West consensus.

The results of the TIG process can be described as a limited number of not fully developed propositions that, with the exception of the entirely unworkable governance structure, can be adapted and integrated to the Grid West design.

The apparent principal aim of the TIG proposal is to vilify the role of the Federal Energy Regulatory Commission (FERC), even though FERC is and shall remain the statutorily mandated, principal regulator of interstate commerce for power. By so doing, the TIG reduces the options available to address regional transmission problems to essentially those that any two utilities can solve bilaterally. The TIG results are not a function of the limited time or funding with which TIG had to work. They are, rather, the consequence of TIG members' predisposition to the status quo, regulatory prejudices, and geographic limitations. Virtually no other transmission organization in the nation<sup>2</sup> that has been designed in the post RTO/SMD environment, has found it feasible to avoid the establishment of an independently administered structure operating under a FERC-approved tariff.

NIPPC rejects the premise that the avoidance of FERC jurisdiction should be the organizing principle of a transmission organization that is inherently inter-state in scope. The TIG proposal avoids the creation of an independent transmission entity by retaining transmission owners' full control of their operations and infrastructure decision-making. The TIG proposal is designed primarily to safeguard the pre-existing contractual and habitual usage rights of traditional customers, which are in any case also protected under the Grid West proposal. It does not address the need for non discriminatory open access to the grid by market players who provide the region's reserve margin and incremental supply, nor does it optimize the use of available capacity, create economic opportunity for unused capacity, economically resolve what BPA refers to as "crippling" congestion, provide incentive for new infrastructure investment in grid expansion by private equity holders, reduce transactional costs through control area consolidation, or move towards competitive procurement of reserves and ancillary services. The TIG proposal is in sum, an extension of the electric power system status quo in BPA's service territory, a condition noteworthy by a history of discussion that is almost never translated into actionable change.

A fresh example of this inertia is the failure of TIG member utilities to sign the "Reliability Management System" recently promulgated by the Western Energy Coordinating Council (WECC). This voluntary protocol was negotiated over many months and signed by virtually all other control areas throughout the West – including BPA.

The TIG proposal contains no provisions to integrate independent power producers (IPPs) into the system, except by granting membership in the Northwest Reserves Pool; it does not increase generation options for siting-constrained coastal states by expanding transmission access to resources in the Intermountain states; it does not increase wholesale market transparency by creating multilateral market functions to complement the predominantly bilateral wholesale power market of the region. The TIG proposal fails to include public purpose interests in its governance structures; excludes from decision-making processes virtually all IPPs, despite the fact that they account for 18 percent of the region's capacity; and fails to integrate British Columbia resources or those of the Intermountain West.

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2 Such transmission organizations include the Entergy ICT, the Duke IE, the Mid-American TSC and North Carolina Planning IE.

In contrast, Grid West stakeholders have created a workable governance structure that balances the independence of the board with accountability to regional interests. The design of the ITP's functions emphatically preserves existing transmission rights while showing a way to increase grid capacity and access and to rational economic means of managing congestion. The benefits of control area consolidation, increased operational efficiency and lower transaction costs, have motivated the support of market participants. Grid West's functions are limited to those of a transmission service provider with voluntary participation in all functional areas. A progression beyond this modest initial structure cannot proceed without explicit stakeholder approval. In addition, Grid West has completed a preliminary cost/benefit analysis that reflects a positive ratio between costs and benefits.

NIPPC views the three options outlined in BPA's letter of August 4, 2005 to be a false choice.

The essential consequence of BPA's failure to support the seating of the Developmental Board called for in Decision Point 2 is the de facto termination of the Grid West ITP. The TIG proposal cannot sensibly be considered a substitute for Grid West because its scope is limited to functions that are marginal, in the main, to the key issues identified in the Grid West consensus.

We believe that without the promise of change represented by Grid West, the risks of blackouts will increase, service curtailments will intensify even as grid capacity will go unused, grid expansion/enhancement projects will face further delay, the cost of transmission service will increase while quality of service will decrease, investment in new generation will be deferred, and the endemic inefficiencies now hindering grid operations will become institutionalized.

We recognize, as does the RRG, that the development of Grid West is not complete, and that considerable work remains to be done, including: negotiating transmission agreements; planning for control area consolidation; crafting an initial tariff and designing cost-effective management structures that can be shown to deliver benefits that surpass costs. These tasks, among others, require the seating of an independent Developmental Board. The region needs an honest broker to serve as counterparty to the transmission owners, if the North and Intermountain West are to objectively address and solve transmission problems that are among the most severe in the nation. The region will, in the time leading up to in Decision Points 3 and 4 have ample opportunity to evaluate the merits of what the Developmental Board delivers. Yet, the only opportunity to create the "one utility" capable of reliably and equitably managing transmission within the Grid West footprint hinges on BPA fulfilling its implicit commitment to the Grid West process by following through on Decision Point 2.

We, the members of NIPPC trust that BPA will in its deliberations consider the TIG effort as simply a part of its due diligence, but nonetheless entirely unsatisfactory as an alternative to Grid West.

## **Northwest Independent Power Producers Responses to Questions Posed by BPA**

1. Do you agree with BPA's goal of a "one utility" vision?

Yes.

2. Describe how each alternative achieves benefits, etc.

*Only the Grid West proposal can be considered an "alternative," because it contains the level of detail on form and function and cost and benefits necessary for an informed decision.*

3. How well do the Grid West and TIG proposals meet the goal of effective decision-making that is not unduly influenced by market participants?

*The TIG proposal fails the test because it is based on contracted, bilateral arrangements devoid of transparency and of independence. Only the Grid West governance can be said to ensure impartial behavior.*

4. If BPA supports the TIG proposal, are you committed to all of its elements?

*If BPA supports the TIG proposal, it will have effectively eliminated the option of establishing an independent transmission organization for the region. We are committed to none of the elements of the TIG "proposal."*

5. If the TIG proposal were to be chosen, how likely would it be to be implemented?

*The TIG cannot be considered a "proposal," and therefore its implementation is unlikely. Some of the limited recommendations proffered by the TIG, such as the common OASIS, could be incorporated in the Grid West proposal and successfully implemented.*

6. If BPA supports Grid West, are you committed to the entire Grid West proposal?

*The Grid West proposal is limited in scope and intended to be evolutionary in nature. BPA should honor its previous commitment and support Decision Point 2 in the Grid West process and, like the rest of the RRG members, work to continue to define and develop the Grid West model and reach Decision Point*

*4, which is the appropriate point in time to decide whether or not to support its implementation.*

7. If the Grid West proposal were to be chosen, how likely would it be successfully implanted?

*There is nothing in the Grid West proposal that would prevent effective implementation, except for the possibility that the participating transmission owners, BPA included, would fail to reach a fair and equitable consensus on the operating agreements necessary to activate Grid West.*

8. If you are a supporter of the TIG alternative, etc.

*We are not a supporter of the TIG “alternative.”*

9. If you are a supporter of Grid West, etc.

*We support the Grid West model for reasons already spelled out in these comments.*

10. The RRG completed an examination of the benefits of Grid West, etc.

*The RRG examination of both the costs and benefits of Grid West represents sound analysis based on a reasonable baseline of assumptions. The benefits are shown to outweigh the costs, which in both cases are conservatively estimated.*

11. Do you have additional views on the estimated costs of the TIG and Grid West?

*There are no reliable cost estimates for the TIG “proposal,” nor reliable estimates of benefits.*

12. What 2-3 improvements might you suggest for each alternative?

*The TIG proposal does not constitute an alternative to Grid West. The TIG proposal could be improved only by absorption in the Grid West proposal, except for the TIG governance structure, which should be rejected summarily. The Grid West proposal could be improved by:*

- *Reducing the timeframe for elimination of pancaked rates to five years or less*
- *Accelerating the consolidation of control areas and increasing the number of consolidations*

- *Phasing out point-to-point service and providing network service to all customers under a single tariff*
- *Creating a secondary market for transmission rights that is fully integrated into the initial operations assigned to Grid West*
- *Establishing a common OASIS, with voluntary participation by all parties in the region, as the first and immediately implementable step in the next phase of Grid West development.*

13. The Grid West and TIG alternatives seem quite similar, suggest convergence?

*The TIG and Grid West proposals are not at all similar. Convergence is not appropriate, and except to the extent that the viable portions of the TIG proposal can be adapted and incorporated in the Grid West design.*

14. Where will the region be in ten years under each alternative?

*The TIG proposal would provide merely an extension of the status quo. The Grid West proposal has the potential to increase ATC availability, reduce transaction costs, foster new investment in transmission expansion beyond what would be feasible with ever-shrinking Federal funds, increase the “firmness” of service for transmission-dependent Load Serving Entities and for IPPs, increase transactional transparency, and create market-driven usage of the transmission grid.*